



County of Los Angeles

CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

April 29, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

FEASIBILITY STUDY OF DEBT AND NON-DEBT FINANCING OF COUNTY'S SELF-INSURED WORKERS' COMPENSATION, AND ANALYSIS OF WORKERS' COMPENSATION INSURANCE PROGRAM

During April 2003, the County Risk Manager initiated a review of the California workers' compensation insurance marketplace. That review indicates the insurance marketplace remains a "Hard Insurance Market." A Hard Insurance Market is a financial condition within the insurance industry when insurance premiums are unreasonably expensive and few insurance carriers offer coverage. The insurance industry's hard market is expected to continue through January 2005 for most insurance coverages, but, likely, through January 2006 for California workers' compensation.

Portfolio risk transfers are much more expensive in hard insurance markets than "Soft Insurance Markets." Soft markets are represented by reasonable insurance premiums and many carriers offering coverage.

Also, during April 2003, under an existing Request for Proposal, the CAO Risk Management Branch requested four actuarial firms to provide the cost of an actuarial study to calculate the County of Los Angeles ultimate workers' compensation's losses and Allocated Loss Adjustment Expense (ALAE) as of June 30, 2003. The actuarial study, likely, will be received December 2003. The County's last workers' compensation actuarial study was valued as of June 30, 1998.

Each Supervisor
April 29, 2003
Page 2

The actuary's calculated ultimate losses and ALAE is a critical component in the analysis of the effectiveness of a portfolio transfer. Since the insurance industry's hard market continues and the actuary's calculation will not be available until December 2003, we suggest postponing the portfolio review until January 2004.

If a question arises, please contact me or Rocky Armfield of my staff at (213) 351-5346.

DEJ:RAA:mtm

c: Executive Officer, Board of Supervisors
 County Counsel
 Human Resources Department
 Treasurer & Tax Collector